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December 1988

Guide for Review of Independent Public Accountant Work

Preface

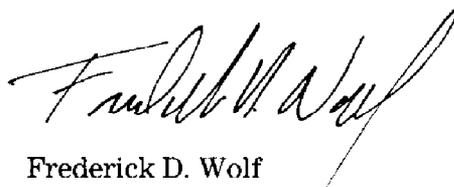
This guide provides a detailed program for reviewing the work of independent public accountants (IPAs). Following the program contained in this guide will help GAO determine the extent we can rely upon IPA work performed in accordance with auditing standards.

This guide may be applicable to various types of GAO audits. However, using the guide is essential when GAO has the authority to audit the financial statements of an entity, and we (1) contract with an IPA to perform financial audit work or (2) plan to use the work of an IPA contracted by the entity. It also may be used to evaluate the quality of IPA audits at the request of the Congress. GAO must evaluate the IPA's work to determine the extent we can rely upon it and any additional work that must be performed to satisfy our audit responsibilities.

Professional judgment is required to determine which portions of the review program are applicable to a specific audit and what additional steps, if any, are necessary to ensure a thorough review of the IPA's work. Therefore, this guide is intended to be used by experienced audit personnel.

This guide does not address under what circumstances GAO may fulfill its statutory auditing responsibilities by contracting for or using the audit work of IPAs, and GAO's Office of the General Counsel should be consulted on this issue.

This guide supplements and does not replace any other GAO policies or procedures and will be updated as necessary. Suggestions for revisions should be brought to the attention of the Director, Accounting and Financial Management Division.



Frederick D. Wolf
Director
Accounting and Financial
Management Division



Werner Grosshans
Director
Office of Policy

December 1988

Contents

Preface	1
Introduction	4
Review Objectives	6
IPA Review Program	8
Review Report	19
Appendix I IPA Review Program Checklist	20
Appendix II Sample Review Reports	21
Figures	
Figure II.1: Sample Report for GAO-Contracted Audit	21
Figure II.2: Sample Report for Entity-Contracted Audit	24

Abbreviations

ADP	automated data processing
AICPA	American Institute of Certified Public Accountants
GAAP	generally accepted accounting principles
GAAS	generally accepted auditing standards
GAGAS	generally accepted government auditing standards
FASB	Financial Accounting Standards Board
GAO	General Accounting Office
IPA	independent public accountant
SAS	statement on auditing standards
OGC	Office of the General Counsel

Introduction

GAO reviews financial statement audits conducted by independent public accountants (IPAs)¹ for various reasons. GAO performs reviews when we are statutorily required to audit an entity's financial transactions, and we have (1) contracted with an IPA to perform financial audit work or (2) plan to use the work of an IPA contracted by the entity.² GAO also performs some reviews in order to report generally on audit quality or specifically on a particular IPA audit of an entity at the request of the Congress.

All reviews require us to determine whether the IPA's work was in accordance with applicable auditing standards. When GAO is statutorily required to audit an entity's financial statements, we also must determine whether (1) we can opine on the entity's financial statements by accepting the IPA's work as our own (in cases where we contracted with the IPA) or (2) report to the Congress that the financial statements and the IPA's opinion and reports provide a dependable basis for overseeing the entity's financial position (in cases where we use the audit work of the IPA hired by the entity).

In reviewing the IPA's work, we will

- review the auditor's approach and planning of the audit;
- evaluate the qualifications and independence of the auditor's staff;
- review the audited entity's financial statements and the IPA's reports to evaluate compliance with generally accepted accounting principles (GAAP) and generally accepted government auditing standards (GAGAS)³; and
- review and test the IPA's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the IPA used, (3) whether a study and evaluation was conducted of the entity's internal accounting controls,⁴ (4) whether

¹IPAs include certified public accountants and public accountants licensed before December 31, 1970.

²When GAO has a statutory responsibility to audit an entity's financial statements, the Office of the General Counsel (OGC) should be consulted before deciding that the statutory responsibility may be satisfied by adopting the audit work of an IPA under contract with GAO or by using the work of an IPA hired by the entity.

³GAGAS are found in GAO's Government Auditing Standards, also known as the "yellow book." GAGAS incorporate generally accepted auditing standards (GAAS) which are promulgated by the American Institute of Certified Public Accountants (AICPA).

⁴Statement on Auditing Standards (SAS) No. 55, effective for audits beginning on or after January 1, 1990, restates the second standard of fieldwork which requires a study and evaluation of internal controls to obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed.

the IPA tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supports the IPA's opinion on the financial statements and internal control and compliance reports.

Following this review program will help GAO determine whether IPA work is in accordance with applicable standards. However, professional judgment is required to determine which portions of the review program are applicable and whether, in light of the IPA's work and the objectives of the GAO review, additional GAO audit work is needed to satisfy our audit responsibilities by law.

Review Objectives

The objective of our review is to evaluate whether the IPA's audit work on an entity's financial statements was performed in accordance with applicable standards. Specifically, our review is intended to determine that

- the financial statements were prepared in accordance with either the GAO Policies and Procedures Manual for Guidance of Federal Agencies (title 2) or Financial Accounting Standards Board (FASB) GAAP used by private-sector entities and most government corporations,
- the audit was conducted in accordance with GAGAS (or GAAS in the case of some IPA audits of nonfederal entities),
- an appropriate understanding of the internal control structure was obtained, and
- tests were performed to ensure compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements.

The following review program is intended as a guide to ensure that our review objectives are met and key milestones, as indicated in appendix I, are achieved. The review program is applicable when we hire the IPA, as well as when the audited entity hires the IPA. The program may also be used to evaluate the quality of IPA audits as requested by the Congress, although additional procedures may be required. For cases in which we hire the IPA, we have control over the contract and should monitor the audit in detail as it progresses. When the IPA is hired by the audited entity, we are not a party to the contract and, therefore, typically review the IPA's work when the audit is complete. Completion of the program and any other steps deemed necessary should be documented by noting working paper references. Any negative responses should be evaluated to determine whether our reliance on the IPA's work is affected and whether additional GAO work is required to satisfy our audit responsibilities. The completed review program then becomes a permanent part of our working papers.

When we contract with an IPA firm, and plan to assume responsibility for the IPA's work as our own, we determine the scope of the audit work and monitor its progress at all key points. For example, we should review (1) the IPA's engagement plan and audit program for internal control work within 30 days after the contract is awarded, (2) the work completed to date and the audit program for substantive testing approximately midway through the audit, and (3) substantive work at the completion of audit fieldwork. We should be sufficiently involved in the IPA's

audit work to enable us to opine on the statements and express concurrence with the IPA's opinion. For statutorily required audits, we must disclose any disagreements with the IPA's opinion and reports, as well as perform the audit work necessary to resolve and report on such disagreements. (See figure II.1 for a sample report.)

When the audited entity contracts with an IPA firm, we usually will review the IPA's work at the end of the assignment to ascertain whether the IPA's opinion is in accordance with applicable auditing standards and whether we can rely on it. Our work must be sufficient to express our agreement with the IPA's opinion and reports and to advise the Congress that our work, together with the IPA's opinion and reports, provides a dependable basis for overseeing the entity's financial position. (See figure II.2 for a sample report.)

IPA Review Program

	W/P	By	Date
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I. Preliminary Survey

A. Gain familiarity with the audited entity by reviewing the following data:

1. purpose/mission statement,
2. description of entity and composition of funds,
3. organization charts,
4. key personnel,
5. prior GAO reports,
6. approved budget,
7. enabling legislation,
8. Federal Managers' Financial Integrity Act reports (if applicable),
9. inspector general reports,
10. published annual reports, and
11. newspaper clippings.

B. Coordinate with other GAO divisions on current or planned work at the audited entity.

C. Review any prior-year GAO working papers or, if performed, GAO's prior-year review of IPA working papers.

1. Note any problems which were found.
2. Note any subsequent events or legal actions which would have an effect on the current year's financial statements.
3. Note the audit methodology used by the IPA to conduct the prior audit.

D. Schedule an opening conference with the IPA to:

1. Meet key audit personnel.
2. Discuss audit objectives.

(continued)

IPA Review Program

	W/P	By	Date
3. When GAO hires the IPA, provide an overview of the entity to be audited based upon past, current, or future planned work. When the entity hires the IPA firm, we should obtain an overview of the entity from the IPA who will be completing or has completed the audit. In both cases, the following should be considered: a. operations by segment, fund, or cycle; b. manual and automated data processing (ADP) system applications; c. basis of accounting; d. financial statement preparation; e. any material weaknesses/reportable conditions in internal accounting controls; and f. major laws and regulations affecting financial operations.			
4. Discuss the audit approach used by the IPA.			
5. Discuss the major accounting, auditing, and reporting issues.			
6. Discuss GAO monitoring of the IPA's audit.			
7. Determine the access GAO will have to the IPA's working papers and any limitations on the scope of our review. ^a			
E. Schedule an opening conference with the IPA and key entity officials to discuss: 1. changes since the last audit; 2. IPA audit approach; 3. major accounting, auditing, and reporting issues; 4. amount of entity assistance to prepare schedules, pull vouchers, etc.; 5. work space for the IPA auditors to conduct the audit and/or GAO to conduct its review of IPA working papers; 6. timing of audit work; and 7. other.			
F. Issue an engagement letter to the audited entity in the format prescribed in GAO's practice bulletins. For government corporations for which GAO is reimbursed for cost of the audit, include an audit cost estimate.			
G. If the IPA is conducting the audit under GAO contract, provide an opportunity for the IPA to review any prior GAO working papers.			

^aSome firms restrict outside access to audit conclusions, work programs, internal control working papers, and billing data. This may be applicable when a competing firm conducts a review, but this restriction does not apply to GAO. The IPA's contract with the audited entity should be reviewed to determine if a standard federal procurement clause is present which allows GAO access to IPA working papers. OGC should be promptly informed of any access-to-records problems.

(continued)

IPA Review Program

	W/P	By	Date
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II. Qualifications and Staffing

A. Obtain resumes of IPA personnel assigned to the audit and review their qualifications.

B. Complete a schedule in the following format:

Level	Years of auditing experience	Years of industry experience	Years of audited entity experience
Partner			
Principal			
Manager			
Senior			
Staff			
Other			

C. Evaluate whether IPA personnel have the necessary educational and professional qualifications.

D. Document the IPA's time estimates and compare against actual. Determine reasons for significant variances.

III. Independence Impairments

A. Determine through inquiry with the IPA whether any independence impairments exist for this audit. As defined in GAGAS, impairments may be personal, organizational, or external.

B. Determine the IPA's process for ensuring independence and if that process was followed for this audit.

C. Throughout our review, be alert to any indications that IPA independence may have been impaired and expand inquiries as deemed appropriate.

IV. Review of IPA's Working Papers

A. Review working papers/permanent files to determine if sufficient working knowledge of operations and applicable laws and regulations was obtained.

B. Review the IPA's audit plan and note if the following items were considered, as applicable:

1. overall scope of the audit;
2. extent of compliance and understanding of internal control structure;
3. evaluation of risks and impact on the audit, particularly accounts which require a high degree of judgment, such as reserves or contingencies;
4. impact of current-year events on the audit plan; and
5. audit of the propriety of opening-year balances.

(continued)

IPA Review Program

	W/P	By	Date
C. Gain an overview of the audit by reviewing the IPA's working papers and noting the following:			
1. Interim/internal control and year-end/substantive work programs			
a. Were work programs reviewed and approved by the partner and/or manager-in-charge of the engagement, particularly at the start of the engagement?			
b. How was materiality established and were all material accounts audited?			
c. OMB has defined materiality for FIA reporting purposes as 5 percent of a line item or \$10 million, whichever is less. If the firm's criterion was greater than this criterion, obtain an explanation.			
d. Were all audit steps performed? If not, were reasons provided?			
e. Were audit steps cross-indexed to the working papers for each procedure or segment?			
2. Supervision			
a. What is the IPA firm's policy on supervisory review?			
b. Is there evidence of supervisory review on binder covers and all or, at a minimum, key working papers, such as audit programs, conclusions, and major issues?			
c. Was a second-partner/technical review performed, particularly of the financial statements and key audit/accounting issues?			
3. Financial Statements			
a. Are all required statements supported by trial balances and/or lead schedules?			
b. Are footnotes supported by working paper source documentation, particularly dollar amounts and statistics?			
c. Are the statements consistent with the prior-year statements, or were changes in presentation justified?			
4. Additional audit work			
a. Was a review for subsequent events conducted?			
b. Was a review for related-party transactions conducted?			
c. Did the auditor consider a review for sensitive payments? GAO encourages such a review and has provided guidance in Technical Guideline 8.1.2.			

(continued)

IPA Review Program

	W/P	By	Date
D. Review the IPA's working papers for the following:			
1. Trace financial statement amounts to IPA lead schedules.			
2. Review the IPA's working papers which support the lead schedules and document the following:			
a. Is there a synopsis of the internal control work and substantive testing performed for each major account or cycle? Also, determine if this work was reviewed and approved by the engagement manager and/or partner.			
b. Were any accounts not covered and, if so, why?			
c. Based on materiality, have all major accounts been adequately and properly tested and reviewed?			
d. Are significant variations between previous-year and current-year account balances explained?			
e. Are there adjusting entries prepared by the audited entity at year-end? Are significant entries reasonable and supported?			
f. Determine whether adjusting entries proposed by the IPA were booked or waived and the reason.			
g. Did the IPA obtain a letter of representation from the audited entity's management and does the letter acknowledge management's responsibility for the fair presentation of the financial statements?			
h. Did the IPA send a letter of audit inquiry to the entity's attorneys concerning litigation, claims, and assessments?			
(1). Is the attorney response documented in the working papers?			
(2). Have legal aspects been considered in the preparation of the financial statements, if necessary?			
(3). Were contingent liabilities appropriately disclosed?			
i. Was a review performed of Board of Directors' minutes?			

V. Management Letter

- A. Determine whether a management letter was issued.
1. Was a management letter issued as part of the last audit and was a written or oral response obtained from the audited entity's management?
 2. Did the current year's management letter comment on the status of items contained in the prior audit management letter?
 3. Was a written or oral response obtained from the audited entity's management on the current year's management letter?

(continued)

W/P

By

Date

VI. Study and Evaluation of Internal Controls/ Consideration of the Internal Control Structure

The study and evaluation of internal controls promulgated by SAS No. 1, section 320, will be superceded by SAS No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit," effective for audits beginning on or after January 1, 1990. Early application of SAS No. 55 is permissible. The following sections A and B apply when audits use the study and evaluation standard of SAS No. 1 and section C applies when SAS No. 55 is used. Reviewers will need to determine, until after the effective date of SAS No. 55, which standard the IPA is following.

A. Preliminary Review of Internal Controls^b

If the IPA conducted only a preliminary review of internal accounting controls, review the following:

1. Did the IPA document the reasons for not extending the review of the system of internal accounting control?
2. Was the extent of substantive testing consistent with the lack of reliance on the system?
3. Was this approach reasonable and appropriate in the circumstances and approved by the engagement manager and/or partner?

B. Study and Evaluation of Internal Controls

If the IPA plans to rely on the system of internal accounting control, review the following:

1. Did the IPA obtain sufficient knowledge and documentation of the internal accounting control system and flow of transactions through a combination of:
 - a. flowcharts,
 - b. interviews,
 - c. client-prepared descriptions of the system, and
 - d. previous experience with the entity as evidenced through prior or permanent working-paper files?
2. Did the IPA make a determination as to whether internal accounting control procedures are suitably designed to provide reasonable assurance that they will prevent or detect material errors or irregularities by:
 - a. inquiring of appropriate entity personnel,
 - b. inspecting written documentation, and
 - c. observing the processing of transactions?

^bGAGAS and an interpretation of SAS No. 30, "Reporting on Internal Accounting Control," state that a study and evaluation of internal controls may be limited to obtaining an understanding of the control environment and of the flow of transactions, and that the auditor's report on internal accounting control should disclose that only a preliminary review was made.

(continued)

IPA Review Program

	W/P	By	Date
3. If the IPA concluded that the internal controls could be relied on, did the IPA document the reasons for the conclusion that the control procedures were suitably designed to provide reasonable assurance?			
4. Did the IPA perform tests of compliance with internal accounting control procedures and were such tests of compliance documented?			
5. Did such tests provide a reasonable degree of assurance that internal accounting control procedures were in use and operating as planned?			
6. Were the IPA's conclusions on the evaluation consistent with the results of the review and test?			
7. If the IPA became aware of a material weakness in internal accounting control, was the weakness communicated to senior management of the audited entity and was the impact of the weakness on the audit evaluated?			
C. Consideration of the Internal Control Structure			
1. Did the IPA obtain and document an understanding of the entity's internal control structure, specifically: a. control environment, b. accounting systems, and c. control procedures.			
2. After obtaining an understanding of the internal control structure, did the IPA assess control risk at the maximum or a lower level as provided by SAS No. 55?			
3. Did the IPA further change its assessment of the level of control risk after obtaining an understanding of the internal control structure and assessing control risk due to additional evidential matter as provided by SAS No. 55?			
4. Did the IPA perform tests of controls to provide evidential matter about the effectiveness of the internal control structure?			
5. Were appropriate substantive tests designed based upon the understanding and assessment of the internal control structure?			
D. Use of the work of other auditors^c			
1. If the IPA relied on internal control work performed by another auditor, did the IPA: a. consider the other auditor's competence and objectivity and b. perform tests of some of the other auditor's work?			

^cOther auditors may be other IPAs or internal or inspector general auditors.

(continued)

W/P

By

Date

VII. Compliance With Laws and Regulations

- A. Review IPA working papers for the compliance segment of the audit and note the following:
1. Did the IPA identify and review pertinent laws and regulations, noncompliance with which would have a material effect on the financial statements?
 2. Do the working papers adequately document the extent of the work performed and the results of the IPA's tests of records and procedures?
 3. Does the IPA's conclusion provide positive assurance for items tested and negative assurance that nothing came to the IPA's attention which would indicate noncompliance?
 4. Were compliance deficiencies disclosed in the working papers cited in the report or the management letter?
- B. Did the IPA become aware of irregularities or illegal acts affecting the audited entity? If so, did the IPA:
1. consult with legal counsel before releasing such information,
 2. extend audit steps and procedures,
 3. promptly notify and provide documentation to appropriate officials of the audited entity, and
 4. consider the effect on the reports to be issued?

VIII. Financial Reporting

- A. GAAP
1. Does the IPA's report state whether the financial statements are presented in conformity with generally accepted accounting principles? (Federal agencies follow title 2 standards and government corporations generally follow FASB standards.)
 2. If the financial statements were not intended to conform with GAAP, does the IPA's report so state and also:
 - a. state the basis of presentation of the financial statements, preferably by referring to a footnote,
 - b. describe how the basis differs from GAAP and is not intended to be presented in conformity with GAAP, and
 - c. express an opinion (or disclaim an opinion) on whether the financial statements are presented in conformity with the basis of accounting described?

(continued)

IPA Review Program

	W/P	By	Date
B. Consistency^d			
1. Does the IPA's report state whether the principles used in the current period were consistent with those used in the preceding period?			
2. If there was a change in accounting principles, did the IPA modify the opinion as to consistency or were the prior-period financial statements restated to reflect the new accounting principle?			
C. Information Disclosures			
1. Do the financial statements and related notes include adequate disclosure of material matters? Some of the more common disclosures are:			
a. description of entity,			
b. significant accounting policies,			
c. basis of accounting,			
d. changes in accounting principles,			
e. commitments and contingent liabilities,			
f. depreciable assets,			
g. inventories,			
h. leases,			
i. pension plans,			
j. related parties, and			
k. subsequent events.			
D. Opinion			
1. Did the IPA's report contain an expression of opinion regarding the financial statements taken as a whole?			
2. Was an emphasis of a matter paragraph used for significant matters of disclosure not affecting the fair presentation of the financial statements?			
3. Does the evidence in the IPA's working papers support the opinions and conclusions expressed in the report?			
4. Were all material exceptions appropriately reported?			
E. GAGAS			
1. Does the audit report include a statement that the examination was made in accordance with GAGAS?			

^dSAS No. 58, effective for reports issued on or after January 1, 1989, requires a reference to consistency only when accounting principles have not been consistently applied.

(continued)

IPA Review Program

	W/P	By	Date
F. Other Reporting Matters			
1. Did the IPA identify material deficiencies in the entity's operations such as irregularities or illegal acts?			
2. If yes, were those deficiencies communicated in the audit report or other documents?			
G. Privileged and Confidential Information			
1. If the IPA is prohibited from disclosing certain information such as classified or proprietary data by federal, state, or local laws or regulations, was the nature of the information omitted and the requirement for omission disclosed?			
H. Distribution			
1. Did the IPA distribute the report to the officials and organizations specified in the engagement letter?			
I. Report on Compliance			
1. Did the IPA's compliance report contain:			
a. a statement of positive assurance on those items of compliance which were tested,			
b. a statement of negative assurance on those items not tested, and			
c. material instances of noncompliance and instances or indications of irregularities or illegal acts found during or in connection with the audit? (Irregularities or illegal acts normally should be communicated separately, thus permitting the overall report to be released to the public.)			
J. Report on Internal Accounting Controls SAS No. 20, requiring communication of material weaknesses in internal accounting control, and paragraphs 47 through 53 of SAS No. 30, "Reporting on Internal Accounting Control," will be superseded by SAS No. 60, "Communication of Internal Control Structure Related Matters Noted in an Audit," effective for audits beginning on or after January 1, 1989. Early application of SAS No. 60 is permissible. The following sections 1 and 2 apply when reporting following SAS No. 20 and No. 30 and sections 3 and 4 apply when SAS No. 60 is used. Reviewers will need to determine which standard the IPA is following.			
1. Did the IPA report on the study and evaluation of internal accounting controls contain:			
a. the entity's significant internal accounting controls,			
b. identification of the controls that were evaluated,			
c. identification of the controls that were not evaluated and reasons for such, and			
d. any material weaknesses identified as a result of the evaluation?			

(continued)

IPA Review Program

W/P

By

Date

2. If the IPA did not make a study and evaluation of internal accounting controls, did the report adequately describe why a study was not made? (GAGAS require at least a preliminary review.)
3. Did the IPA disclose all reportable conditions?
4. To what extent were agreed upon criteria arrangements made by the IPA and the entity and reported thereon as provided by SAS No. 60?

IX. Conclusions

1. Write a summary memo containing your overall conclusion noting:
 - a. whether audit evidence was sufficient to support the IPA's conclusions and opinion on the financial statements and in the internal control and compliance reports,
 - b. which overall points and questions are still open for discussion and resolution, and
 - c. the results of discussions on key issues with the IPA and entity officials.
 2. Complete the review checklist contained in appendix I.
 3. Conduct an exit conference with the IPA and key entity officials.
-

Review Report

After completing a review of IPA work, a GAO report should be issued to the Congress and/or the head of the audited entity on the results of our review. The report should include the following elements.

Introduction

- The enabling legislation establishing the audited entity and the entity's purpose.
- GAO audit authority and how we fulfilled it by use and review of IPA work.

What We Found

- If we contracted with the IPA, our opinion, and the degree of its consistency with the IPA's opinion, on the entity's financial statements. (See figure II.1 for a sample report.)
- If the audited entity contracted with the IPA, the extent of our reliance or nonreliance on the IPA's opinion as a result of our review. (See figure II.2 for a sample report.)
- The results of the IPA's reports on internal control and compliance with laws and regulations and the extent of our concurrence with them.
- Whether a separate management letter has been issued.

Discussion of Issues

- Discussion of any issues noted by our review.

Matter for Consideration/ Recommendation

- Presentation of a matter for consideration or recommendation based on our review of any issues discussed previously.

Distribution

- Disclose key officials receiving copies of the report.

Our report should then be followed by: the three IPA reports and the audited entity's financial statements and footnotes. Figure II.1 is a sample report format for use when GAO contracts for the audit and therefore assumes responsibility for the IPA's work. Figure II.2 is a sample report format for use when the audited entity contracts with the IPA.

IPA Review Program Checklist

This checklist provides a summary record of key milestones planned and achieved for an IPA review.

Phase	Activity	Date planned	Date achieved	By
Planning	Gather preliminary data on the audited entity and coordinate with other audit efforts.			
	Attend initial meeting with the IPA to discuss approach, meet assigned staff, etc.			
	Attend opening conference with the IPA and entity.			
	Issue engagement letter to the entity.			
	Provide the IPA an opportunity to review prior GAO working papers.			
	Review the IPA's staff qualifications.			
	Review the IPA's independence.			
Implementation	Review interim/internal control audit program.			
	Review year-end/substantive audit program.			
	Review risk analysis/internal control results and issues.			
	Review substantive testing, conclusions, and issues.			
Report	Review the following reports:			
	opinion and financial statements			
	internal control			
	compliance			
	management letter			
	Write summary memo on issues/results of the IPA's audit and include GAO conclusion.			
	Attend exit conference with the IPA and entity.			
	Prepare GAO report incorporating the IPA's opinion, entity's financial statements, and the IPA's internal control and compliance reports.			
Complete detailed audit program on results of the IPA review.				

Sample Review Reports

Figure II.1: Sample Report for GAO-Contracted Audit

See note 1.

See note 2.

See note 3.

See note 4.

B-XXXXXX

(Date)

To the President of the Senate and the Speaker of the House of Representatives

This report presents our opinion on the (name of audited entity's) financial statements for the fiscal year ended (date). Reports on the (auditee's) (internal accounting controls) and on its compliance with laws and regulations are also provided.

Optional paragraph(s) to present:

- Type of ownership
- Enabling legislation
- Mission of auditee
- Activities to fulfill mission
- Notable events

We are required to conduct an audit of the (auditee) at least once every 3 years under the provisions of the Government Corporation Control Act (31 U.S.C. 9105) (or cite other audit authority). To fulfill our responsibility, we contracted with an independent certified public accounting firm to conduct a financial (and compliance) audit of the (auditee) for the year ended (date). We determined the scope of the audit work, monitored its progress at all key points, reviewed the working papers of the certified public accountants, (name of IPA firm), and performed other procedures as we deemed necessary. Our examinations were conducted in accordance with generally accepted government auditing standards. In our opinion, and consistent with the opinion of (name of IPA firm), the (auditee's) financial statements present fairly (in all material respects) its financial position as of (date), and the results of its operations, changes in stockholders' equity, and changes in financial position for the year then ended, in conformity with generally accepted accounting principles (applied on a consistent basis) (or qualify as necessary). The (date of prior year) financial statements, which are presented for comparative purposes, have not been audited and thus an opinion was not expressed on them (if comparative financial statements and the prior year is unaudited).

The report by (name of IPA firm) on internal accounting controls disclosed no condition believed to be a material weakness (or disclose

weaknesses). The auditor's report on compliance with laws and regulations disclosed nothing to indicate that (auditee) had not complied with such applicable laws and regulations which could have a material effect on the financial statements (or disclose violations). We concur with these reports. (Or describe exceptions, if any; the additional work we performed; and our findings.)

If a management letter was issued:

During the course of its audit, (name of IPA firm) also identified several matters which, although not material to the financial statements, were communicated for the (auditee's) consideration in a separate management letter.

Matters for Consideration or Recommendations:

Discuss in a paragraph here any other matters for consideration or recommendations to the Congress.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Board of Directors of the (auditee), and (any other parties as required).

Charles A. Bowsher
Comptroller General
of the United States

Notes for Figure II.1

1. SAS No. 60, effective for audits beginning on or after January 1, 1989, requires a report on "internal control structure," rather than a report on "internal accounting controls."
2. GAO's Government Auditing Standards no longer require "and compliance," effective for audits starting January 1, 1989.
3. SAS No. 58, effective for reports issued on or after January 1, 1989, requires that "in all material respects" be added.
4. Effective January 1, 1989, a reference to consistency is only included when accounting principles have not been consistently applied.

Figure II.2: Sample Report
for Entity-Contracted Audit

B-XXXXXX

(Date)

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our review of the independent (certified, if applicable) public accountant's audit of (name of audited entity's) financial statements for the fiscal year ended (date). In the auditor's opinion, the (auditee's) statements are fairly presented (in all material respects) in accordance with generally accepted accounting principles (or are not and cite reasons). The independent auditor's reports on the (auditee's) (internal accounting controls) and on its compliance with laws and regulations are also provided.

See note 1.

See note 2.

Optional paragraph(s) to present:

- Type of ownership
- Enabling legislation
- Mission of auditee
- Activities to fulfill mission
- Notable events

The (auditee) contracted with an independent (certified, if applicable) public accounting firm, (name of IPA firm), to perform a financial and compliance audit of its (year) financial statements. The Government Corporation Control Act (31 U.S.C. 9105) requires the Comptroller General to audit the financial transactions of (auditee) at least once every 3 years (or cite other audit authority). To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our available resources, we reviewed the independent auditor's work and reports.

We conducted our review of the auditor's work in accordance with generally accepted government auditing standards. To determine the reasonableness of the auditor's work and the extent to which we could rely on it, we

- reviewed the auditor's approach and planning of the audit,
- evaluated the qualifications and independence of the audit staff,

See note 3.

- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards, and
- reviewed and tested the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditor used, (3) whether (a study and evaluation was conducted of the entity's internal accounting controls), (4) whether the auditor tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditor's opinion on the financial statements and internal accounting control and compliance reports.

See note 2.

See note 4.

In the opinion of (name of IPA firm), the (auditee's) financial statements present fairly its financial position as of (date), the results of its operations, and the changes in its cash for the year ended, in conformity with generally accepted accounting principles. Also, (name of IPA firm) reports to the (auditee) on (internal accounting controls) and on compliance with laws and regulations did not disclose any (material internal control weaknesses) or noncompliance with laws and regulations (or describe exceptions).

See note 5.

During our review, we found nothing to indicate that (name of IPA firm) opinion on the (auditee's) (year) financial statements is inappropriate or cannot be relied on. Nor did we find anything to indicate that the auditor's reports on internal accounting controls and on compliance with laws and regulations were inappropriate or cannot be relied on (or describe exceptions).

If a management letter was issued:

During the course of its audit, (name of IPA firm) also identified several matters which, although not material to the financial statements, were communicated for the (auditee's) consideration in a separate management letter.

We believe that the financial statements, together with (name of IPA firm) opinion and our review of that work, provide the Congress with a dependable basis for evaluating the (auditee's) financial position. This report presents the (auditee) financial statements and the auditor's opinion thereon.

**Appendix II
Sample Review Reports**

Matters for Consideration or Recommendations:

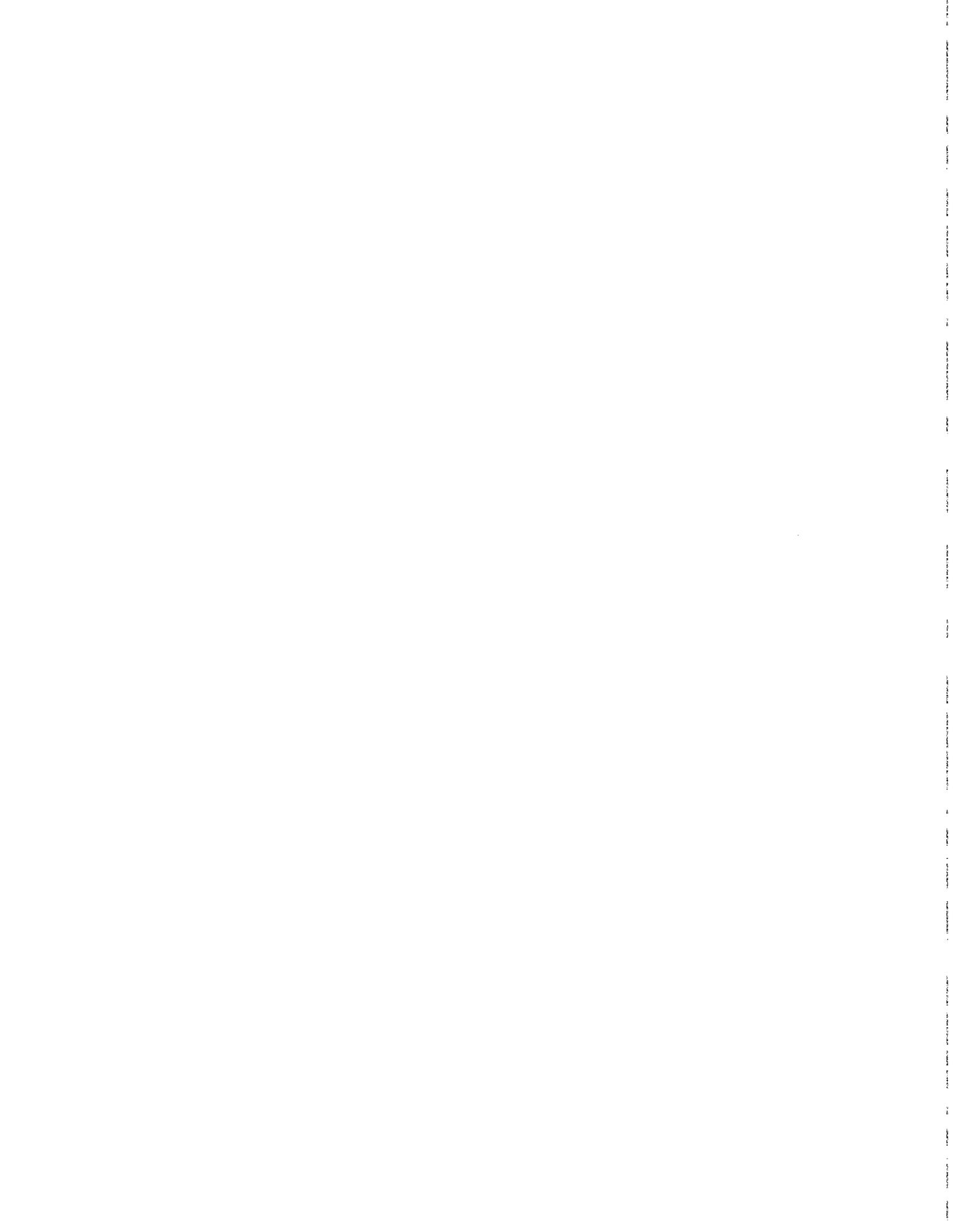
Discuss in a paragraph here any other matters for consideration or recommendations to the Congress.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Board of Directors of the (auditee), and (any other parties as required).

Charles A. Bowsler
Comptroller General
of the United States

Notes for Figure II.2

1. SAS No. 58, effective for reports issued on or after January 1, 1989, requires that "in all material respects" be added.
2. SAS No. 60, effective for audits beginning on or after January 1, 1989, requires a report on "internal control structure," rather than a report on "internal accounting controls."
3. The language required by SAS No. 60, effective for audits beginning on or after January 1, 1989, would read, "whether an understanding was obtained of the entity's internal control structure."
4. The language required by SAS No. 60, effective for audits beginning on or after January 1, 1989, would also include, "reportable conditions." Although SAS No. 60 gives the auditor the option to identify and communicate those reportable conditions that are judged to be material weaknesses, GAGAS require the identification and reporting of material weaknesses.
5. If we disagree with any element of the IPA's opinion or reports on internal controls and on compliance with laws and regulations, our report should disclose the nature of the disagreement, the work we performed to resolve the issue, and our findings.



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